IMB FACT SHEET

The Crucial Role of the Independent Mortgage Bank

Learn more about this vital sector of the real estate finance industry.
Independent mortgage banks (IMBs) are non-depository institutions that typically focus exclusively on mortgage lending. Mortgage bankers have originated and serviced loans since the 1870s, and independent mortgage banks have been an important component of the mortgage market for more than a century.

According to Home Mortgage Disclosure Act (HMDA) data, there were 876 independent mortgage banks in 2017, with these lenders operating across all 50 states. Independent mortgage banks are a diverse market segment, and can range in production volume from $100 million to almost $100 billion annually. Companies can have fewer than 100 employees or several thousand. The expanded role of independent mortgage banks strengthens our housing finance system by bringing local market knowledge, diversifying risk across a larger number of lenders and servicers, and fostering greater competition and innovation.

The Facts About IMBs

- **Mortgage Banking Is a Time-Tested Business Model.** The independent mortgage banking model has existed for more than 100 years, and provides important market diversification.

- **IMBs Have Skin in the Game.** Most independent mortgage banks are closely held private companies with significant investments in technology and infrastructure — their success is tied to the success of the enterprise.

- **IMBs Serve Critical Borrower Segments in their Local Markets.** Independent mortgage banks focus on the purchase market and on government-insured or -guaranteed loans that target first-time and low- and moderate-income homebuyers.

- **IMBs Are Well-Regulated at Both the State and Federal Levels.** Independent mortgage banks are regulated and monitored by the states and federal government. All of the federal and state consumer protection rules apply to IMBs just as they do for depository institutions. IMBs are the only lenders in the market whose loan officers are required to be individually licensed and tested. Additionally, FHA, VA, Ginnie Mae, the GSEs, and warehouse lenders all exercise regular counterparty oversight, establish minimum financial standards, and require regular financial reporting.

- **Independent Mortgage Bankers Support Their Communities, Consumers and the American Economy.** There are almost 900 IMBs active in the market today, the vast majority of which are locally owned institutions serving their communities by bringing mortgage funds from Wall Street to Main Street.

The Independent Mortgage Banker Business Model

- **Independent mortgage banks are non-depository institutions and typically use short-term borrowings from bank and nonbank lenders known as warehouse lines of credit to originate their loans. The borrowing is secured by the funded loans until they are sold to an investor (typically Fannie Mae or Freddie Mac) or issued as securities (typically guaranteed by Ginnie Mae).**

- **As a result, the mortgage banking business model serves as an “importer” of capital to local communities, moving investment dollars from the capital markets on Wall Street to make home mortgages available on Main Street.**

- **Independent mortgage banks are typically monoline companies, focused exclusively on providing home mortgage financing, mortgage servicing and other closely related services. They operate through all market cycles and across all delivery channels (retail, wholesale and correspondent).**
Most IMBs are privately held companies, owned and operated by a single individual or small number of owners whose personal net worth is fully invested in the company. This serves to align the owners with the success of the enterprise, providing “skin in the game” and strong incentives to manage the business for the long term.

More recently, as banks have pulled back from the mortgage market, some major IMBs have grown large enough to secure backing from private equity investors, arrange larger and more sophisticated commercial financing facilities and raise capital as publicly held companies.

Evolving Market Dynamics — IMBs Fill the Void When Banks Pull Back From Mortgage Market

As noted, IMBs have been around for more than a century. Their share of home mortgage lending has ebbed and flowed with broader developments in the market. Historically, independent mortgage banks have focused their lending on loans guaranteed by FHA and VA.

More recently, IMBs have stepped into the void created as bank lenders retreated not only from government lending, but from the mortgage market generally, in the aftermath of the financial crisis.

While the independent mortgage banks’ share of HMDA-reporting entities has remained steady in recent years, accounting for around 15 percent of all reporting companies, they have grown their share of overall origination volume from 25% in 2008 to 54% in 2017.

In addition, IMBs have become the primary source of credit for FHA, VA and Rural Housing Service (RHS) borrowers. These government-backed programs predominantly serve low- and moderate-income families and first-time homebuyers in underserved markets.

In 2017, IMBs accounted for more than 80 percent of FHA loans, 70 percent of VA loans, and 64 percent of RHS loans (see Figure 1). Prior to the financial crisis, federally insured depositories accounted for the majority of such lending.

Given their market focus, it is not surprising that more than 64 percent of minority home buyers got their financing from an IMB in 2017 (see Figure 2). Further, independent mortgage banks originated nearly 60% of all home purchase loans for low- and moderate-income borrowers (see Figure 3).

IMBs also tend to serve borrowers needing lower-balance loans. The average purchase-loan amount in 2017 for IMBs was $243,000, compared to $280,000 for federally insured depositories (see Figure 4).

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**FIGURE 1: IMB SHARE OF ORIGINATIONS (%) BY LOAN TYPE**

<table>
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<th>VA</th>
<th>USDA (FSA/RHS)</th>
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Source: Home Mortgage Disclosure Act (HMDA) data, 2007–2017

**FIGURE 2: SHARE OF HOME PURCHASE, OWNER-OCCUPIED ORIGINATIONS (%) TO MINORITY BORROWER BY COMPANY TYPE**

- Depository: 36%
- IMB: 64%

Source: Home Mortgage Disclosure Act (HMDA) data, 2007–2017
Regulatory Oversight of IMBs Has Strengthened Significantly Since The Crisis

- Independent mortgage banks are subject to state supervision in every state in which they do business. They are also regulated at the federal level, where the Consumer Financial Protection Bureau (CFPB) has supervisory, investigative and enforcement authority over their lending practices and consumer compliance.

- Each year, the typical IMB will have numerous financial and consumer compliance exams from state and federal regulatory agencies. Under the auspices of the Conference of State Bank Supervisors (CSBS), independent mortgage banks submit quarterly financial data to their state regulators. In addition, the CSBS has worked with state regulators to substantially enhance the frequency and rigor of state onsite examination programs for IMBs, including the use of multi-state exams for larger IMBs that are often conducted in coordination with the CFPB.

- In addition, Fannie Mae, Freddie Mac, Ginnie Mae and the FHA have minimum net worth and liquidity requirements for all approved lenders, and routinely monitor their performance. In the wake of the financial crisis, minimum capital standards were increased substantially. More recently, in 2015, Fannie, Freddie and Ginnie worked together to further strengthen the standards.

- Warehouse lenders also closely monitor independent mortgage banks for counterparty risk, as they will look to the independent mortgage banks and the underlying collateral to get paid back in the event of a default.

- Finally, independent mortgage banks are the only mortgage lending business model that requires all individual loan originators employed by the company to be tested and licensed in each state in which they operate.

Today’s IMB sector is well-regulated and plays a crucial role in serving the core of the single-family mortgage market with sustainable mortgage products through all economic cycles.